

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BBF2134 – FINANCIAL MARKETS AND INSTITUTIONS

(All sections / Groups)

16 OCTOBER 2017

9.00 a.m – 11.00 a.m

(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 4 Questions only.
2. PART A: Answer **ALL** questions (**COMPULSORY**).
PART B: Attempt **ANY TWO** questions only.
The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

PART A: Answer ALL questions (COMPULSORY)**QUESTION 1****CASE STUDY**

Money market and capital market are a part of financial market in Malaysia. Money market securities are short-term instruments with an original maturity of less than one year. These securities include Treasury bills, commercial paper, repurchase agreements, negotiable certificates of deposit, and banker's acceptance. Money market securities are used to 'warehouse' funds until needed. The returns earned on these investments are low due to their low risk and high liquidity. On the other hand, the capital markets exist to provide financing for long-term capital assets. Households are net investors in the capital markets, whereas corporations and the governments are net users of these funds. The three main capital market instruments are bonds, stocks and mortgages. Having above knowledge, Mr. Chan intends to invest in the money market and capital market instruments. The instruments have the following feature:

Treasury bill 1 (T-bill): The purchase price of a 90-day Treasury bill is RM3,840 that pays RM3,930 at maturity.

Treasury bill 2 (T-bill): A Treasury bill matures in one year and pays RM10,000 with a discount rate of 3%.

Commercial paper: The price of a 240-day commercial paper is RM9,730, which has annualized investment rate of 4.093%.

Bond: A bond has the following cash flows with a market interest rate of 12%.

Year	0	1	2	3	4
Cash flow		160	170	180	230

Discount bond: A 1-year discount bond with a face value of RM1,500 was purchased for RM950.

Stock: Telekom Malaysia's stock price is currently RM19. It is expected to pay a dividend of RM0.65 a share in the current year. Stock analysts predict its price one year from now to be RM23.

In the next year, TM's stock has just paid its annual dividend RM0.90 per share. Analysts believe that TM's stock will maintain its historic dividend growth rate of 4% with the required return of 9%.

Based on the above, in order to earn money from the money market and capital market, Mr. Chan must anticipate and answer the following questions:

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- a. Based on the above case,
- i) For Treasury bill 1, calculate annualized discount rate % and annualized investment rate %. (5 Marks)
 - ii) How much you would pay for a Treasury bill 2, given the information in the above case. (5 Marks)
 - iii) For commercial paper, what will the paper pay at maturity? (5 Marks)
 - iv) List **TWO (2)** participants (i.e., borrowers or lenders) in the money markets. Identify **FOUR (4)** objectives of money markets. (5 Marks)
- b. Based on the above case,
- i) What price would you pay for these cash flows? What total wealth do you expect after 2.5 years if you sell the rights to the remaining cash flows? (5 Marks)
 - ii) What is the yield to maturity? What is the yield on a discount basis? (5 Marks)
 - iii) Discuss secured and unsecured corporate bonds. (5 Marks)
- c. Based on the above case,
- i) Calculate the expected return for Telekom Malaysia's stock. (5 Marks)
 - ii) what is the expected price of the Telekom Malaysia's stock next year? (5 Marks)
 - iii) Identify **TWO (2)** differences between organized exchanges and over-the-counter markets with **ONE (1)** example. (5 Marks)
- (Total: 50 Marks)

PART B: Answer ANY TWO questions only.

QUESTION 1

- a. List **EIGHT (8)** facts of financial structure. (16 Marks)
- b. Define agency theory. Discuss **THREE (3)** tools to solve the principal-agent problem. (4 Marks)
- c. Do you think the Lemons problem would be more severe for stocks traded on the New York Stock Exchange or those traded over the counter? Explain. (5 Marks)
- (Total: 25 Marks)

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QUESTION 2

- a. List and discuss **FOUR (4)** primary concerns on how a bank manages its assets and liabilities.
(16 Marks)
- b. What are the benefits and costs for a bank when it decides to increase the amount of its bank capital?
(4 Marks)
- c. A bank's balance sheet consists of liabilities (sources of bank funds) and assets (uses of bank funds). Discuss **TWO (2)** types of assets that are included in a bank's balance sheet.
(5 Marks)
- (Total: 25 Marks)

QUESTION 3

- a. Define credit risk. List **SIX (6)** ways to manage credit risk.
(14 Marks)
- b. A bank added a bond to its retained portfolio. The bond has a duration of 12.3 years and cost RM2,370. Just after buying the bond, the bank discovered that market interest rates are expected to rise from 6.5% to 7%. What is the expected change in the bond's value?
(5 Marks)
- c. List **THREE (3)** differences between forward contract and future contract.
(6 Marks)
- (Total: 25 Marks)

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